FAIRWAY® HOME MORTGAGE

THE SHUMATE TEAM

Mortgage Glossary

ADJUSTABLE-RATE MORTGAGE (ARM)
A mortgage with an interest rate that changes during the life of the loan according to movements in an index rate. Sometimes called AMLs (adjustable mortgage loans) or VRMs (variable-rate mortgages).

AMORTIZATION TERM
The length of time required to amortize the mortgage loan expressed as a number of months. For example, 360 months is the amortization term for a 30-year, fixed-rate mortgage.

ANNUAL PERCENTAGE RATE (APR)
The cost of credit, expressed as a yearly rate including interest, mortgage insurance, and loan origination fees. This allows the buyer to compare loans; however, APR should not be confused with the actual note rate.

EQUITY
The amount of financial interest in a property. Equity is the amount of your home that you own.

FANNIE MAE
A congressionally chartered, shareholder-owned company that is the nation's largest supplier of home mortgage funds.

FHA MORTGAGE
A mortgage that is insured by the Federal Housing Administration (FHA), also known as a government mortgage.

FICO SCORE
FICO® scores are the most widely used credit score in U.S. mortgage loan underwriting. This 3-digit number, ranging from 300 to 850, is calculated by a mathematical equation that evaluates many types of information that are on your credit report. Higher FICO® scores represent lower credit risks, which typically equate to better loan terms.

HOUSING EXPENSE RATIO
The percentage of gross monthly income budgeted to pay housing expenses.

HYBRID ARM (3/1 ARM, 5/1 ARM, 7/1 ARM)
A combination fixed-rate and adjustable-rate loan. A hybrid ARM typically has a lower interest rate (like an ARM) and a fixed payment for a longer period of time than most adjustable-rate loans. For example, a 5/1 loan has a fixed monthly payment and interest for the first five years and then turns into a traditional adjustable-rate loan, based on then-current rates for the remaining 25 years. It's a good choice for people who expect to move or refinance before or shortly after the adjustment occurs.

LOAN-TO-VALUE (LTV)* PERCENTAGE
The relationship between the principal balance of the mortgage and the appraised value (or sales price if it is lower) of the property. For example, a $100,000 home with an $80,000 mortgage has an LTV of 80 percent.

POINTS
A point is equal to one percent of the principal amount of your mortgage. For example, if you get a mortgage for $165,000, one point means $1,650 to the lender. Points usually are collected at closing and may be paid by the borrower or the home seller, or may be split between them.

RATE LOCK
A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate and lender costs for a specified period of time.

PRIVATE MORTGAGE INSURANCE (PMI)
Mortgage insurance provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

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